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## USSR: KEY ECONOMIC INDICATORS

| | 1978 | 1980 | 1981 | 1982 | 1983 Plan (A) |
|---|---|---|---|---|---|
| Population (million, year end) | 262.4 | 266.6 | 268.8 | 271.2 | |
| Labor Force (million) | | | | | 0.4 |
| Factory & Office Workers | 102.2 | 112.5 | 114.1 | 115.2 | |
| Collective Farm Workers | 15.7 | 13.5 | 13.2 | 13.0 | |
| GNP ($ billion current) (B) | 1,253 | 1,393 | 1,587 | 1,600 est | |
| GNP real growth (% change) (C) | 3.4 | 1.2 | 1.8 | 2.0 est | |
| GNP per capita ($ constant) (C) | 4,800 | 5,240 | 5,930 | 5,900 est | |
| Industrial Output (% change) (D) | 3.5 | 2.9 | 2.0 | NA | 3.2 |
| Agricultural Output(% change) | 3.3 | -5.1 | 0.1 | NA | 10.5 |
| Grain Harvest (million tons) (E) | 237.4 | 189.1 | 158.0 | 180.0 est | |
| Labor Productivity (% change) | | | | | |
| Industry | 3.7 | 2.6 | 2.7 | 2.1 | 2.9 |
| Agriculture | 2.6 | -1.0 | -2.0 | 6.0 | |
| Total Capital Investment ($ billion) | 190.4 | 205.7 | 195.0 | 197.3 | 3.2 |
| of which Agricultural ($ billion) | 50.8 | 55.3 | 51.7 | 51.6 | 0.8 |
| Average Monthly Wage (% change) | 3.8 | 3.2 | 2.0 | 2.8 ($245) | |
| Output Industrial Commodities | | | | | |
| Oil (million barrels/day) | 11.71 | 12.03 | 12.18 | 12.25 | 1.0 |
| Natural Gas (billion cubic ft/d) | 36.0 | 42.1 | 45.0 | 48.5 | 5.6 |
| Coal (million metric tons/mmt) | 724.0 | 716.0 | 704.0 | 718.0 | 0.7 |
| Electricity (bil. kilowatt hours) | 1,202 | 1,295 | 1,325 | 1,366 | 3.3 |
| Steel (mmt) | 151.5 | 147.9 | 149.0 | 147.0 | |
| Cement (mmt) | 127.0 | 125.0 | 127.0 | 124.0 | |
| Trucks & Buses (thousand units) | 839.0 | 872.0 | 874.0 | 865.7 | |
| Automobiles (thousand units) | 1,312 | 1,327 | 1,324 | 1,307 | |
| Mineral Fertilizer (mmt, nutrient) | 23.7 | 24.8 | 26.0 | 26.7 | 5.8 |
| Plant Protectants (thousand tons) | 491.0 | 474.0 | 504.0 | 533.0 | |
| Selected Consumption Items | | | | | |
| Meat (slaughter weight, mil tons) | 15.50 | 14.98 | 15.20 | 15.24 | 6.1 |
| Vegetable Oil (million tons) | 2.97 | 2.65 | 2.61 | 2.62 | |
| Eggs (billion) | 64.5 | 67.9 | 70.9 | 72.1 | |
| Leather Footwear (million pairs) | 740.0 | 744.0 | 739.0 | 730.0 | |
| Washing Machines (million units) | 3.7 | 3.8 | 3.9 | 4.0 | |

| Selected Foreign Trade Data: (Western data, $ million) (F) | EXPORTS TO USSR 1981 | 1982 | % Change | IMPORTS FROM USSR 1981 | 1982 | % Change |
|---|---|---|---|---|---|---|
| Argentina (G) | 3,297 | 1,746 | -47.0 | 43 | 40 | - 7.0 |
| Canada | 1,573 | 1,694 | + 7.7 | 65 | 35 | -46.2 |
| Finland | 3,458 | 3,487 | + 0.8 | 3,332 | 3,299 | - 1.0 |
| France | 1,847 | 1,490 | -19.3 | 3,386 | 2,737 | -19.2 |
| Germany, Federal Republic | 3,394 | 3,800 | +12.0 | 3,938 | 4,594 | +16.7 |
| Italy | 1,291 | 1,459 | +13.0 | 3,112 | 3,420 | + 9.9 |
| Japan | 3,236 | 3,900 | +20.5 | 2,012 | 1,682 | -16.4 |
| United Kingdom | 871 | 629 | -27.8 | 1,013 | 1,141 | +12.6 |
| United States | 2,339 | 2,584 | +10.5 | 347 | 229 | -34.0 |
| Total OECD (E) | 25,362 | 26,190 | + 3.3 | 24,429 | 26,219 | + 7.3 |

NOTES: Data from Soviet sources unless indicated. The official dollar exchange rate of the ruble has varied from $1.38 to $1.54 in the 1978-82 period. Domestic purchasing power differs widely depending on commodity. (A) Soviet growth targets expressed as percentage. (B) US estimate with Soviet data converted at US purchasing power equivalents. (C) US data. (D) US estimate as Soviet data on industrial output are believed to contain an upward bias in the growth rate due to double-counting and disguised inflation. (E) Unofficial Soviet figure for 1981, US Department of Agriculture estimate for 1982. (F) Soviet trade with the West, except for Finland, is conducted on a hard currency basis. (G) Soviet data.

SUMMARY

SOVIET ECONOMY IN 1982: Growth continued to decline in the second year of the 11th Five-Year Plan, according to official Soviet statistics. (U.S. estimates of rising GNP growth since 1980 more accurately reflect the slow recovery from poor performance in 1979, when Soviet GNP grew only 0.8 percent.) Growth rates for national income, industrial production, and labor productivity were all lower than prescribed by plan; performance fell behind the already disappointing results of 1981 and 1980. The energy sector was brightened by the rapid and above-plan growth of natural gas output and fulfillment of the electricity target. However, oil output barely grew. A reversal of three years of decline in coal extraction still left this branch -- on which the Soviets have placed great hopes -- below plan and below the level of 1978. In heavy industry, most machine-building branches performed relatively well. Results were mixed within the "progressive" chemicals sector and decidely negative in the traditional industrial branches that the Soviets still consider vital to the Soviet economy: ferrous metallurgy, construction materials, and transport equipment.

What is slowing the economy down? Three obvious culprits appear -- labor productivity is declining even as Soviet economic strategy assigns it the central role in speeding economic growth; transport is struggling, with total freight turnover in 1982 up only 1.2 percent and output of transportation equipment falling well below the levels of 1981, and the raw materials sectors is undernourishing an industrial machine that still needs a heavy diet.

The standard of living in the USSR in 1982 stagnated at best. Official Soviet statistics reveal that "real per capita income" -- actually a constant-price measure of total consumption minus some services -- rose by only 0.1 percent. Retail sales in constant prices increased by only 0.3 percent, implying a per capita decline of about 0.6 percent. The virtual flattening of these two key Soviet measures of well-being is unprecedented. Since domestic production of most consumer goods and services rose in 1982, though more slowly than in 1981, it is not clear why consumption leveled off.

In spite of the fourth poor or mediocre grain crop in a row, gross Soviet agricultural output in 1982 reached 126 billion rubles ($173.9 billion), up 5 billion from 1981. The increase was due largely to the disastrous results in 1981, rather than any significant gains, as total 1982 output fell well short of the plan which called for 136.8 billion rubles. Estimates of the 1982 grain crop range as high as 190 million metric tons, which would still be 48 million tons below plan. Although meat, milk and most crops exceeded the poor results achieved in 1981, only vegetables reached planned output.

FOREIGN TRADE IN 1982: The USSR earned an impressive foreign trade surplus of 6.8 billion rubles in 1982, its largest to date. A roughly 27 percent rise in the average subsidized price of Soviet oil accounted for

much of the nominal increase in the value of Soviet exports to CMEA (Council for Mutual Economic Assistance, mainly East Europe less Yugoslavia), the USSR's largest trading group. The Soviets also cut back their bilateral trade surplus with Poland -- a form of trade aid among clearing trade partners -- but still ran a Ruble 3.6 billion surplus with CMEA as a whole. Soviet imports from CMEA, primarily machinery and equipment, increased 16.5 percent.

The USSR hard-currency position improved sharply in 1982. A fourth quarter surge in energy exports helped push exports up 10 percent for the year, while imports were trimmed about 1 percent from 1981 levels. As a result, the hard-currency trade deficit was chopped to $1.3 billion from $4.0 billion in 1981. Total turnover (which includes trade with nearly all industrial Western countries and several developing countries) reached $53.6 billion. Japan edged out Germany as the largest Western exporter to the USSR while Germany remained the USSR's biggest OECD export market. Soviet demand for ferrous metals and certain types of machinery and equipment was brisk due to their role in alleviating domestic bottlenecks and raising productivity. The USSR remained quite interested in countertrade in order to reduce outlay of its scarce hard currency.

US agricultural and phosphate exports to the USSR rose 11 and 62 percent, respectively, in 1982, continuing their recovery from the depressed level of January 1980 to April 1981 when economic sanctions were in place. Non-agricultural U.S. exports (including phosphates) rose 9 percent to $733 million, somewhat below the 1979 level. Soviet exports to the US fell to a tenth of the value of Soviet imports last year.

IMPLICATIONS FOR THE UNITED STATES: Several years of high grain imports by the USSR, the more recent softening of energy prices, and slowness of domestic investment projects have constrained Soviet imports of machinery and equipment and heightened Soviet interest in compensation or countertrade. Yet Western firms find it difficult to extend countertrade beyond current levels.

Grains will continue to be the dominant element of bilateral trade, but subject to vacillations in the Soviet harvest. The new long-term grains agreement signed in August assures the US of a substantial share of the Soviet grain market through September 1988. The new agreement calls for minimum annual purchases of 9 million tons from the US and as much as 12 million tons without prior authorization.

In non-agricultural trade, the Soviet focus has generally shifted from the importation of complete plants to specific equipment, especially for the oil and gas sector, food processing, and agricultural chemicals. Soviet skepticism about the prospects for approval of validated license applications is hindering US energy equipment sales. US export controls on high technology exports to the USSR remain strict.

Soviet demand is also vigorous in four sectors: (a) chemicals, especially agricultural chemicals; (b) medical equipment, particularly for cardiology where US technology is highly regarded by the Soviets; (c) food processing

equipment, especially if directly related to raising agricultural productivity; and (d) mining machinery and equipment.

One result of the state of Soviet-American relations has been, and probably will be, the channeling of US exports through West European affiliates, as US companies attempt to manage Soviet resistance to direct contacts or revise downward their expectations in the Soviet market. US exports may continue to suffer as more accessory equipment and components will be of European or Japanese manufacture.

CURRENT ECONOMIC SITUATION AND TRENDS

The Soviet Government has economic objectives similar to those of many other nations: achievement of a balanced growth rate; development of a more productive industrial and agricultural base; and improvement of a low domestic standard of living. In the USSR, the state owns virtually all productive resources and seeks to coordinate the country's economy through a complex system of centralized planning.

LIMITS TO GROWTH: After rapid expansion in the postwar period, Soviet GNP growth rates declined steadily to less than 2 percent on average after 1978 due to a convergence of problems. The planned economic system, tightly centralized in Moscow, is unable to cope with the technological and managerial flexibility required of a modern economy. Extraction costs are rising sharply for the albeit vast stores of raw materials located in inhospitable sections of Siberia. These resources are far from the western population centers where Russian industry started but where the material base is now near exhaustion. Labor productivity growth is lagging and nearly all of the modest growth in the labor force in the 1980's is coming from less industrial Central Asia. This is an obstacle to the development of natural resources in Eastern Siberia which will become more accessible upon completion of the Baikal-Amur Mainline Railway, now planned for 1985. Major increases in the cost of capital construction and disproportionate development, i.e., a lag in one sector such as transportation which slows progress elsewhere, frustrate fulfillment of investment plans. Competition for resources among the civilian sector is heightened by steady increases in military spending. Oil is not only more expensive to extract, but its production has levelled off. Finally, it is a long-term strain for the Soviets to maintain sufficient oil and gas exports to pay for essential imports of food and grain, steel, machinery and consumer products.

We regard the above set of problems as problems that will retard economic growth --and efficiency, no more than that. The USSR with its vast resources of material and manpower does have the ability to mobilize in the event of serious difficulty.

ECONOMIC REFORM: The Andropov regime has discussed the economic constraints besetting the economy more candidly than its predecessor. Andropov has attacked the drift and complacency that marked the later Brezhnev period. Some incompetent or corrupt officials have been replaced by younger, capable figures. Andropov has told worker and manager alike

that their pay and bonuses must be strictly tied to performance. Higher income can only come from higher productivity. Andropov, possibly subject to cross-cutting political pressures, is supporting experiments aimed at freeing managers from excessive central and party control. Whether this change of tone and policy will lead to major structural reforms of the economy remains to be seen.

1981-85 PLAN: Its goals include the development of an agro-industrial complex to assure constant and adequate food supplies to Soviet consumers, rapid development of fuel and energy resources, modernization of long-distance transportation, renovation of machine-building and metalworking industries, redirection of steel production into a wider variety of better quality products, and introduction of measures to conserve the use of fuels and metals.

Due to a shortage in incremental investment funds and the vast amount of incomplete capital construction now on hand, Soviet planners will be trying to achieve these results with a growth in investment funds half that of the last 5-year plan. The rhetorical focus is on quality rather than quantity, "intensification" (usually defined as higher productivity from existing facilities, rather than additional production lines), and more rational use of resources and manpower rather than the addition of new resources or labor.

FOREIGN TRADE AND PAYMENTS: This sector plays a significant role in Soviet efforts to restore lagging growth rates. Eastern Europe is the USSR's largest regional trade partner and primarily a source of machinery and equipment, although the Soviets are sometimes dissatisfied with the quality of such imports. The Soviets are keen to advance economic integration among CMEA members by greater coordination of national economic planning and more direct ties between Soviet and East European enterprises. Soviet productivity would rise via changes in the CMEA division of labor, e.g., increased East European export of selected industrial consumer goods and food to the USSR, further East European investment in Soviet resource development and transportation, and transfer of East German know-how in robotics and microelectronics to Soviet enterprises. The Soviets want CMEA members to move upscale reducing the relative weight of energy and raw material production, and trading more highly processed products, such as main line pipe, open-pit excavators, agricultural equipment, milling equipment, and items that mechanize hand labor. East European countries, however, are concerned lest such intra-CEMA specialization further erodes their economic sovereignty.

Soviet enthusiasm in the early Seventies for large-scale import of Western technology and equipment as a means of modernization and bypassing domestic bottlenecks has been tempered by subsequent Soviet difficulties in absorbing sophisticated Western technology, foreign exchange constraints, and by the use of economic sanctions by some Western trade partners. The USSR is determined not to become overly dependent upon the West in general or upon particular countries. Slower growth in 1982 and uncertainty over long-range export projects which depend heavily on the market for Soviet energy and gold, have also contributed to the more selective Soviet import policy.

But when Soviet technology is inadequate, domestic production is insufficient, or prompt construction is crucial, the Soviets will opt for Western imports. Except in the most urgent cases, they then seek sharp competition among several Western firms.

The Soviet Government is financially conservative and wary of large-scale borrowing to finance imports, keeping their net debt and debt-service ratio at a relatively low level (under 20 percent). The USSR's net debt to Western commercial banks peaked in 3rd Quarter 1981 at $10.9 billion. The Soviets worked this by reducing their borrowing and building up deposits so that by the end of 1982 their net debt with commercial banks stood at $4.2 billion. Net hard-currency debt to the West as a whole (including government and government-backed debt) stood at $10.1 billion at the end of 1982.

The Soviets seek to export complete plants and equipment to less-developed countries (LDCs) to obtain selected minerals, consumer goods, fish, and agricultural products and to advance political objectives. The Soviet trade surplus with LDCs peaked at 3.3 billion rubles ($4.5 billion) in 1982 as the USSR squeezed LDC exports by 14 percent, with agricultural exports to the USSR down both in price and volume. Libya was an exception: it repaid arms debt by providing the USSR with some 140,000 barrels per day of oil for reexport to the West, up from 1981 levels, and a considerable share of the increase in 1982 gross Soviet oil exports to the West. Soviet exports to LDCs, including an unspecified amount of arms, rose 20 percent. India regained its status as the USSR's leading visible LDC trade partner as Argentine grain exports were halved.

ENERGY: This sector is critical to Soviet development. While the USSR is one of the few industrialized countries to be a net exporter of energy and has vast reserves to support continued and increased production of energy, it faces formidable and growing problems in developing and extracting that energy. Barents Sea oil exploration and production and Kansk-Achinsk low-calorie coal conversion are two long-term projects which will present awesome technical challenges. Unlike some Western observers, Soviet planners do not expect oil production to peak in the mid-eighties, but their 1985 target anticipates a very low annual increase. Oil production costs have risen markedly in recent years as the Soviets increasingly turn to secondary recovery methods. Faced with stagnation in oil and coal, Soviet planners are trying to alter the economy's energy balance and the structure of exports to increase the share of natural gas and nuclear energy. A soft world oil market since 1982 has hindered Soviet gas marketing efforts, however. This may result in greater medium-term Soviet efforts to substitute gas for oil domestically and in Eastern Europe in order to free Soviet oil for ready marketing in the West. The Soviets also plan to increase use of nuclear energy and coal in order to reduce consumption of oil as a basic fuel in electrical power generation. There is much scope for energy conservation, given wasteful Soviet energy practices, and Soviet officials are pushing for more economical use of energy.

Despite diminishing returns for oil and coal, the energy sector will remain a prime recipient of Soviet investment funds for the foreseeable future. Near-term investments will be concentrated on development of oil and gas production in Western Siberia, southern fields nearer to industrial centers, and offshore.

OIL: Soviet oil and gas condensate output rose 0.6 percent in 1982 to 12.25 million barrels/day (613 million tons), slightly below plan. Performance in the oil sector depends entirely upon productivity at large West Siberian fields. Their share in total output is increasing as oil production elsewhere declines. The Soviet oil industry will continue to depend upon Western technology for special applications, particularly enhanced recovery and offshore drilling equipment.

A more ambitious oil target of 1 percent growth, an increase of or 120,000 barrels per day, has been set for 1983. Average daily output during the first 6 months, 12.38 million barrels per day, was at a pace necessary to meet the plan (619 million tons).

GAS: Soviet natural gas was the star performer of the energy sector in 1982 as production increased 7.7 percent to 48.5 billion cubic feet/day (501 billion cubic meters). Massive Soviet investment in six high-capacity pipelines from West Siberian fields, one for export (a priority construction project of the 1981-85 plan), and the abundance of this resource (almost 40 percent of proven world reserves of natural gas) may promise good performance in the gas industry, once compressor stations are completed and the major pipeline systems come on line. Delay in building local distribution systems for the large pipelines has slowed down consumption growth somewhat so far. Soviet planners aim for a 5.6 percent increase in 1983 output. For the first six months of 1983, gas output was running 7 percent above the same period in 1982.

COAL: Production in 1982 increased over the previous year for the first time since 1978. Nevertheless, the output of 718 million tons remained below the 1978 peak level, and the industry failed to meet its 1982 target of 728.3 million tons. New capacity, particularly the open pit mines in the Siberian Ekibastuz region, offset a precipitous decline in production in traditional coal areas such as the Donets Basin. Ekibastuz coal has a low heat content, however, and is unsuitable for coking.

Coal will not relieve the energy crunch facing the USSR during the 1980's. Substitution of coal for oil is likely to be negligible for at least a decade; even if large-scale interfuel substitution were possible, the Soviet coal industry is poorly equipped to increase production.

Four major problems hamper the coal industry: underground mining conditions are deteriorating rapidly; insufficient new capacity is coming on stream to offset production declines in older coal basins; labor shortages and productivity declines are more acute; and development of the large basins east of the Urals is constrained by the poor quality of these deposits and their distance from present energy consumers.

The 1985 target of 775 million tons looks beyond reach. Tight coal supplies will sharply curtail Soviet plans to build large coal-fired thermal power plants, undercutting plans to substitute coal for oil. Soviet planners aim for a modest 5 million ton, or 0.7 percent, rise in coal output in 1983.

FERROUS AND NONFERROUS METALLURGY: Crude steel production fell 1.3 percent or 2 million tons in 1982, 4.5 million tons below the peak year of 1978. The Soviet steel industry has become a major drag on the economy. Shortages of steel, especially high-quality products, are holding back the growth of civilian machine-building and other priority sectors of the civilian economy. Planned cutbacks in the growth of new fixed investment stem in large part from the lack of steel to support construction and the manufacture of producer durables.

The main cause of the steel industry's worsening performance is inadequate past investment in all sectors of the industry. Investment allocations have not been enough to support ambitious development plans, partly because real investment costs have been rising. The imbalances in capacity among the components of the industry -- iron ore, coking coal, crude steel, and finished steel -- are unlikely to be eliminated over the next several years because of the long gestation periods involved in bringing new capacity on line.

The USSR is nearly self-sufficient in nonfuel minerals, enjoying far greater security of supply than Western industrialized nations. The 1981-85 plan calls for increases in production of some nonferrous metals, such as aluminum, which can be substituted for steel in many applications. The USSR has canvassed several LDCs for bauxite imports in 1982 and increased its purchase of bauxite from Jamaica.

The Soviets claim to have the world's largest reserves of manganese, nickel, lead, molybdenum, mercury, and antimony. They also claim that reserves of chromite, gold, platinum-group metals, and copper are among the largest in the world and are sufficient to support Soviet mine production for many decades.

Western specialists generally accept the validity of these claims, while noting that many Soviet nonferrous deposits are located in remote and harsh regions of the country and in some cases, e.g., non-bauxite ores, deposits would not be considered commercially exploitable by Western standards.

The Soviets seem determined to exploit their comparative advantage in nonferrous resources. New mines and processing plants are coming into service, numerous additional projects are planned and under construction, and large investments for geological prospecting have been committed during the current 5-year plan. The USSR is a major exporter of some nonferrous minerals and metals, particularly platinum-group metals, chromite, cobalt, and manganese. However, Soviet policy has been sufficiently pragmatic to allow a degree of import dependence for metals and minerals whose domestic extraction costs are particularly high, such

as tin, or for which high-quality domestic resources do not exist, such as phosphate.

MACHINE-BUILDING AND METALWORKING INDUSTRIES: Reflecting the Soviet leadership's continuing emphasis on heavy industry, machinery production -- the principal source of investment goods, military hardware, and consumer durables -- is scheduled to increase at a hefty 7 percent rate during the current Five-Year Plan. With the highest growth slated for branches of heavy industry most closely tied to the military, civilian machinery output is expected to lag as in recent years. The Soviets need more technologically advanced products, e.g., numerically-controlled machine tools and robots, in order to renovate and modernize the country's aging capital stock, to stimulate energy development and conservation of fuels and materials, and to substitute for increasingly scarce labor resources.

CHEMICAL INDUSTRY: Output in this sector is scheduled to grow at 5.6 percent per year during the 1981-85 plan period, well above the 4 percent average annual growth achieved in the latter seventies. The industry has benefited from the investment priority it has enjoyed in recent years, particularly from earlier purchases of Western equipment and technology. Yet Soviet managers have experienced difficulties in bringing output of newer plants to rated capacity and production results in the chemical sector were mixed in 1982.

There is growing Soviet interest in using plastics in industry to substitute for metals and in the whole range of agricultural chemicals, e.g., herbicides, pesticides, and insecticides. Stabilizing Soviet agricultural output at a higher level has become a major political goal. The Soviets have not extensively used agricultural chemicals in the past but now recognize their potential for raising Soviet crop yields and cutting losses. Soviet import of these chemicals is rising as their domestic production experience is limited.

LOGGING, PULP, PAPER, AND WOODWORKING INDUSTRY: Declining growth in production, a characteristic of the forestry industries for several years, continued in 1982. This results from the gradual exhaustion of timber resources in the western regions of the USSR where labor and transport exist to harvest the crop, as well as from low investment in industry infrastructure during the last several years. Timber output fell 2 percent in 1982. Paper production, which had seen modest expansion in the mid-70's, followed up its unimpressive 1.8 percent growth in 1981 with a 0.7 percent gain in 1982. The immense, largely untapped resource base of Siberia provides the USSR with the potential for improving forestry industry performance and will become more accessible with the completion of the Baikal-Amur Mainline (BAM) and the development of Western Siberia. In 1980 the Soviets revised BAM's completion target from 1983 to 1985. Some Western observers believe that the eastern section of the railroad running from Tynda to Komsomolsk will be completed by Spring, 1984, and the western leg to Ust-Illimsk a year later.

AGRICULTURE: 1982 performance was mixed. Increased output in most areas of production led to a 4 percent increase in the value of gross agricultural output to 126 billion rubles, but failure to fulfill plan targets in most all commodity lines left the USSR more than 10 billion rubles short of the planned level. The Soviets once again failed to publish a grain harvest figure as the result was dismal. Estimates of 1982 grain production range from as high as 190 million tons, but still far short of the 238 million ton plan. The outlook for the 1983 crop of at least 200 million tons is the best in five years.

Production of seed cotton in 1982 nearly made the plan target of 9.33 million tons, but as a result of poor weather at harvest time, output fell below the levels achieved in the last two years. Both sugar beet and potato production, 71 and 78 million tons respectively, were up from very low levels in 1981, but the improvements were not great and neither made plan. The 1982 sunflower seed harvest of 5.3 million tons reversed a three-year decline in that crop but was well below plan.

Livestock production improved in 1982, but the results cannot be considered great. Meat production at 15.24 million tons was marginally above 1981 and well short of plan. Milk output reversed a four year decline, rising over 1 percent to 90.1 million tons, but was still well short of plan. Egg production's growth rate slowed to under 2 percent but still exceeded its target. Livestock inventories on all Soviet farms generally showed some improvement after the difficult overwintering period of 1981/82. Cattle and hog inventories stood at record levels as 1983 began. The mild 1982/83 winter seems to have had a very favorable effect on feed supplies and livestock numbers, and this may lead to better meat and dairy performance in 1983.

LIGHT AND FOOD INDUSTRIES: The general slowdown in performance that has plagued the Soviet economy as a whole has affected the light and food industries as well. Industry and agriculture which supply the consumer economy have failed to keep deliveries up to projected levels, and in many cases consumer durables are actually produced as subsidiary products of heavy industry. Output of consumer goods industries grew by 2.9 percent in 1982, and production of most key consumables has grown slowly since 1979, indicating that per capita consumption is nearly stagnant. Production of such luxury consumer goods as watches, china, crystal, radios, and televisions has increased, but price hikes and withdrawal of less expensive models from the market have combined to make these goods less accessible to the average Soviet worker. The 1981-85 plan calls for faster growth of consumer goods output than for heavy industry but allocates a larger share of its limited investment funds to heavy industry.

Although food supplies were better than in 1981, persistent shortages were noted during 1982. Meat supplies were no better than the year before and dairy products were only slightly more available than in 1981. Food supplies in 1982 were greatly augmented by an estimated $20 billion in imports. Soviet consumers will pay more for some consumer goods in 1983 due to recent price hikes.

IMPLICATIONS FOR THE UNITED STATES: Several years of high grain imports by the USSR, the more recent softening of energy prices, and slowness of domestic investment projects have constrained Soviet imports of machinery and equipment. Long-standing Soviet interest in compensation or countertrade has been sharpened by the need to stretch scarce hard currency reserves. Yet Western firms find it difficult to profitably extend countertrade beyond current levels.

Grains will continue to be the dominant, but unpredictable, element of bilateral trade, remaining most dependent on Soviet crop conditions. The new long-term grains agreement will reestablish the US in the Soviet grain market through September 1988. There are also favorable prospects for US soy exports both directly and via European processors. The Soviets plan to increase feed protein quality, while rival soy suppliers' export potential will be crimped by unfavorable harvests.

In non-agricultural trade, the Soviet focus has generally shifted from importation of complete plants on a turn-key basis to less costly import of particular equipment. Soviet interest in oil and gas equipment, agricultural chemicals, and food processing equipment, areas where US firms are competitive, is strong. The Soviet energy sector remains one of the largest markets for Western firms.

The best prospects for US firms would ordinarily be in oil and gas equipment and high technology related to factory modernization, including equipment and products such as small computers, electronic production and test equipment electronic components, and process control instruments. U.S. controls on high technology exports to the USSR remain strict.

US firms' interest in marketing oil and gas equipment revived after the lifting of trade sanctions against such equipment in November, 1982. Yet Soviet skepticism about the prospects for approval of validated license applications has hindered American sales efforts.

Outside of high technology and equipment for the oil and gas industry, Soviet demand is also vigorous in four promising sectors: (a) chemicals, especially agricultural chemicals; (b) medical equipment, particularly for cardiology, where US technology is highly regarded by the Soviets; (c) food processing equipment, especially if directly related to raising agricultural productivity; and (d) mining machinery and equipment.

One result of the state of Soviet-American relations has been, and probably will be, the channeling of US exports through West European affiliates, as US companies attempt to manage Soviet resistance to direct contacts, or revise downward their expectations in the Soviet market. US exports may continue to suffer as more accessory equipment and components will be of European or Japanese manufacture. US direct export losses may be offset to some extent by indirect exports from the US through third countries, but this will be difficult to measure.

* U.S. GOVERNMENT PRINTING OFFICE: 1983-421-007:561